

Physician Executives Beware: Your Pay May Be Reported

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We've all seen local newspaper articles discussing the pay of top-level corporate and hospital executives.

In the past, physician executives have not had their compensation exposed to the public in this way unless they were hospital CEOs or COOs. But that is changing.

Beginning this year, hospitals and health systems will be required to provide the IRS with more details of pay packages for a larger group of employees, a group that is likely to include high-ranking physicians in executive and clinical positions.

And because reports to the IRS are public information, the details contained in them may become public knowledge.

Is your pay about to be exposed to the general public? If it is reported, are you prepared to answer questions from the media, your friends and colleagues, and your subordinates?

What is form 990?

Form 990 is an annual report filed by tax-exempt organizations with the IRS in lieu of a tax return. Form 990 is public information, and must be made available to the general public, including the press. Many organizations post the form on their Web sites, and the IRS posts returns on GuideStar, a searchable Internet database.

Form 990 has always required reporting of executive pay. But in the past, reporting was limited to a few executives, and the rules were vague enough that it wasn't altogether clear what needed to be included. The end result was that comparisons between organizations were difficult to make.

In 2007, the IRS announced a redesign of form 990, the first in over 30 years. Final rules for the new form were published in August 2008 and will take effect with forms filed in 2009 covering 2008 activities.

The redesigned form 990 requires organizations to report compensation for many more employees. The new form also requires more detailed reporting than in the past, and the rules are clear enough that we can expect more consistent and more complete reporting of total compensation.

Whose pay is reported on the new form 990?

If you are the chief medical officer of a hospital or health system, or if you have an officer's title or serve on the hospital's board, your pay may need to be reported, no matter what it is.

If you receive \$150,000 or more in W-2 income plus benefits, you should expect your pay to be reported if you are a "key employee" who manages a "discrete segment or activity of the organization that represents 10 percent or more of the activities, assets, income, or expenses of the organization." If you are the medical director or chief of service for a major service line, you may fall into this category.

If you are paid \$100,000 or more in W-2 income, you should expect your pay to be reported if you are among the five highest compensated employees other than officers, directors, trustees, and key employees; or if you have held an officer's title or served on the board or met the definition of a key employee any time in the last five years. This group is likely to include clinical physicians employed by hospitals, as well as physician executives.

If you have served on the board in the past and receive a pension or deferred compensation of \$10,000 or more each year related to your board service, you should expect this to be reported.

If you meet any of these requirements for reporting, and also receive compensation from another organization (a clinical practice, for example) that provides services to your tax-exempt employer, your pay from both organizations will be reported on form 990.

What pay will be reported?

If you fall into one of these categories, your W-2 income from the tax-exempt organization and any related organizations will be reported on part VII of form 990, along with an

estimate of any other compensation (i.e., non-taxable benefits or deferred compensation) you receive from those organizations.

Your pay will also be reported in more detail on Schedule J. Your W-2 income will be reported and split between salary, bonus or incentive pay, and other taxable pay such as perquisites (car or car allowance, club membership, etc.).

Any deferred compensation you receive, such as nonqualified retirement plan contributions, will be reported in the fourth column. The value of your non-taxable benefits will be reported in the fifth column. These sums are added together in the sixth column, and the seventh column shows any amount of the total that has been reported on form 990 in a previous year.

The seventh column is necessary because deferred compensation must be reported twice: once when it is earned, and again when it is paid.

Pay from your tax-exempt employer is reported on line (i), and pay from a related organization such as a clinical practice is reported on line (ii).

What should you do if your pay is going to be reported?

If you think you fall into one of the categories of employees whose pay must be reported on form 990, you don't need to panic. There are several things you can do to prepare for the questions your friends and colleagues may ask.

First, become familiar with your employer's compensation philosophy. This philosophy will spell out how executives' pay and benefits compare to those of other similar organizations, and it will describe or name the organizations it uses for these comparisons.

It will describe the impact of the incentive compensation plan on the competitiveness of your pay package. It will tell you whether decisions about your total compensation package are made by the board as a whole, an



executive compensation committee, or the CEO.

Secondly, review your bonus or incentive plan and be prepared to explain, in general terms, how it works. For example, you may want to explain that a sizeable amount of your cash compensation is paid to you only if the organization achieves certain objectives, such as improvements in quality or patient satisfaction.

Thirdly, be prepared to answer questions like, "Why are you paid more than I am?" You may want to refer to the executive compensation philosophy to explain how your pay compares to other physician executives who hold similar positions in similar organizations.

Tell your human resources executive you don't want to be surprised, but want to be notified of what will be published, and when. Ask if your organization has appointed a spokesperson to deal with questions from the media. You should not answer questions from the media about your own compensation, and your employer will not expect or want you to do that.

The most important thing to remember is that reports about executive pay always get people talking, but the effect never lasts very long.

